

**Management Board interim report
for the temporary unaudited annual
consolidated financial statements for 2014
Medika d.d. Zagreb
Group Medika**

February 2015

Report Submitted by Director

Comment on temporary unaudited consolidated financial statements for the fourth quarter of 2014

In accordance with the prescribed deadlines for submitting financial statements for the fourth quarter of 2014, Medika d.d. has prepared temporary unaudited consolidated financial statements which present approximate consolidated balance sheet as at 31 December 2014, approximate consolidated profit and loss statement for the fourth quarter, approximate consolidated statement of changes in equity and approximate consolidated statement of cash flow.

We stress out that these consolidated financial statements are temporary and as such are not approved by the Supervisory Board. Furthermore, consolidated financial statements are unaudited and investors should not take them as a basis for their investment decisions, but they should merely use them as approximate info until the publishing of the final results, since there may be differences between temporary and final results.

Publishing of the final results (annual audited financial statements) for the Company and the Group is expected by 31 March 2015.

With the above stated, Management Board does not comment financial statements, but only presents key events for the Company and the Group in 2014.

Key events

Total pharmaceutical market in 2014 has decreased comparing to the same period of previous year. At the same time, sales of Medika have increased, so the market share has grown in 2014.

There were several changes of The list of medicinal products and medical devices during the year, which lowered the sales prices and affected the amount of realized revenues from sale.

Based on the decision passed by General Assembly, the Company increased share capital. Share capital has increased for HRK 40.8 million and amounts to HRK 135.0 million.

Due to better cash inflow in 2014, indebtedness decreased comparing to the beginning of year.

In January 2014, ZU Ljekarne Hermed entered in Prima Pharma Group. In December 2014, ZU Ljekarne Hermed was merged with ZU Ljekarne Prima Pharme.

Also, in March 2014, Ljekarna Elvira Štimac was merged with ZU Ljekarne Prima Pharme.

Expected future development of the Group

The Company will continue with its core business: distribution of medicinal products and medical devices and will strongly develop operations with products that make the core business of the firm.

Development strategy of Prima Pharme is to expand network of pharmacies on whole territory of Croatia.

Treasury shares

At 31 December 2014, Medika holds 1,155 treasury shares.

Subsidiaries and associates

The Company has 100% of ownership in subsidiary Zdravstvena ustanova Ljekarne Prima Pharme and associate Litmus d.o.o. in which it holds 41.53% of ownership.

ZU Ljekarne Prima Pharme has 100% of ownership ZU Ljekarne Delonga, ZU Ljekarne Ines Škoko, ZU Ljekarne Atalić and associate ZU Ljekarne Jagatić in which it holds 49% of ownership.

During 2014 Ljekarna Elvira Štimac was merged with ZU Ljekarne Prima Pharme.

Also, from 1st of January 2014, ZU Ljekarne Hermed entered in Prima Pharma Group. During 2014 ZU Ljekarne Hermed was merged with ZU Ljekarne Prima Pharme.

Related parties

The company with major voting rights or a parent company Mavota d.o.o. owns 47.38% of the Company and has 49.26% of shares with voting rights.

Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.33% of the voting rights. Given the share in the ownership and business transactions with the Company, Pliva Hrvatska has significant influence on the current operations of the Company.

Financial risks and exposure to price risk, credit risk, liquidity and cash flow risk

Within financial risks, foreign exchange risk is significant. The majority of Group's income is realised on domestic market in Croatian kuna. The Group's purchase of goods is predominantly realised on the foreign market. Furthermore, a part of the borrowings is linked to foreign currencies. The Group is therefore exposed to foreign exchange risk arising from various changes in foreign exchange rates mainly linked to the EUR.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure. However, the Group continuously monitors changes in interest rates. Various scenarios are simulated taking into account refinancing, renewal of existing positions and alternative financing.

Price risk arises from a continuous price decrease on List of medicinal products and medical devices approved by HZZO and administrative approach in determining prices and margins of medicinal products and medical devices. To lower this risk, the Company focused on increase of variety of products which are not limited by law in respect of the price of the product.

Majority of the credit risk relates to trade receivables. Credit risk is higher when dealing with pharmacies, which have potential going concern issue. Hospitals which have longer collection period do not have a going concern issue and collection issue.

The most significant risk within market risks is a long collection period of receivables, especially HZZO and HZZO related receivables. Therefore, a significant amount of working capital is not available what has an influence on cash flows and timely settlement of Medika liabilities. As these receivables are either dependent from or owned by State, risk of collection is not high, but this increases the need for future financing, which increases finance expenses.

Jasminko Herceg, dipl.oec.
Director

³ **Medika** d.d.
ZAGREB, Capraška 1

Appendix 1.

Reporting period:

1.1.2014.

to

31.12.2014.

Quarterly financial statements TFI-POD

Registration number (MB): 03209741

Identification number of company (MBS): 080027531

Personal identification number (OIB): 94818858923

Issuer: MEDIKA d.d.

Postal code and city: 10000

ZAGREB

Address: CAPRAŠKA 1

e-mail: medika.uprava@medika.hr

web page: www.medika.hr

Code and name of municipality/city: 133 ZAGREB

Code and county name: 21 GRAD ZAGREB

Number of employees: 759
(end of reporting period)

Consolidated statements: YES

NKD code: 4646

Consolidated entities (according to IFRS):

Sjedište:

MB:

ZU Ljekarne Prima Pharme

Split

0694975

ZU Ljekarne Delonga

Okrug Gornji

1605747

ZU Ljekarne Ines Škoko

Zagreb

02708396

ZU Ljekarne Atalić

Osijek

0845124

Bookkeeping service:

Contact person: RADMILOVIĆ DIJANA
(only name of the contact person)

Telephone number: 012412551

Telefaks: 012371441

e-mail: medika.uprava@medika.hr

Name: HERCEG JASMINKO
(osoba ovlaštene za zastupanje)**Documentation for publishing:**

1. Financial statements (Balance sheet, Profit and loss account, Cash flow statements, Statements of changes in equity and Notes to financial statements)
2. Interim report,
3. Statement of Liability.

M.P.

3 Medika d.d.
ZAGREB, Capraška 1

(signature of authorised person)

BALANCE SHEET
balance as at 31.12.2014.

Issuer: MEDIKA d.d.			
Description	AOP mark	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	396.749.406	406.526.335
I. INTANGIBLE ASSETS (004 to 009)	003	188.717.677	187.874.734
1. Research and development	004		
2. Concessions, patents, licences, trademarks, software and other rights	005	114.946.894	113.952.439
3. Goodwill	006	71.933.150	72.016.174
4. Advances for intangible assets	007	106.987	43.035
5. Intangible assets under construction	008	1.730.646	1.863.086
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	155.425.747	169.412.366
1. Land	011	15.994.715	15.994.715
2. Buildings	012	108.266.769	104.745.502
3. Equipment and machinery	013	4.780.720	5.404.669
4. Furniture, fittings and vehicles	014	10.274.130	9.017.507
5. Biological assets	015		
6. Advances for tangible assets	016	6.007.726	839.803
7. Tangible assets under construction	017	9.347.737	32.571.220
8. Other tangible assets	018	753.950	838.950
9. Investment property	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	49.740.192	46.542.142
1. Investment in subsidiaries and associates	021	39.367.845	39.441.483
2. Loans to related parties	022		
3. Loans given to minority interest	023		
4. Loans given to participating parties	024		
5. Investment in securities	025		
6. Loans given, deposits and similar	026	10.372.347	7.100.659
7. Other non-current financial assets	027		
8. Investments at equity method	028		
IV. RECEIVABLES (030 to 032)	029	1.877.708	1.529.977
1. Receivables from related parties	030		
2. Receivables for credit sales	031		
3. Other receivables	032	1.877.708	1.529.977
V. DEFERRED TAX ASSET	033	988.082	1.167.116
C) CURRENT ASSETS (035+043+050+058)	034	1.557.718.738	1.479.737.976
I. INVENTORY (036 To 042)	035	239.296.937	262.314.166
1. Raw material	036	420.970	537.117
2. Work in progress	037		
3. Finished products	038		
4. Trade goods	039	237.687.713	257.051.444
5. Advances for inventories	040	1.188.254	4.725.605
6. Non-current assets available for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	1.201.422.661	988.048.781
1. Receivables from related parties	044	17.413.787	15.442.355
2. Trade receivables	045	1.172.070.790	959.727.442
3. Receivables from participating parties	046		
4. Receivables from employees	047	419.044	367.900
5. Receivables from the state and other institutions	048	6.732.178	10.008.876
6. Other receivables	049	4.786.862	2.502.208
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	50.405.113	148.273.952
1. Investment in subsidiaries and associates	051		
2. Loans to related parties	052		
3. Equity investments	053		
4. Loans given to participating parties	054		
5. Investment in securities	055		
6. Loans given, deposits and similar	056	50.405.113	148.273.952
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	66.594.027	81.101.077
D) PREAPID EXPENSES AND ACCRUED INCOME	059	920.048	2.396.802
E) TOTAL ASSETS (001+002+034+059)	060	1.955.388.192	1.888.661.113
G) OFF BALANCE SHEET ITEMS	061	185.013.175	161.014.153

EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	421.223.079	482.569.941
I. SHARE CAPITAL	063	94.205.280	134.967.180
II. CAPITAL RESERVES	064	-9.243.180	-9.243.180
III. RESERVES FROM RETAINED EARNINGS (066+067-068+069+070)	065	88.587.743	88.587.743
1. Legal reserves	066	7.277.713	13.953.444
2. Reserves for treasury shares	067	60.000.000	53.324.269
3. Treasury shares	068	10.486.460	10.486.460
4. Statutory reserves	069		
5. Other reserves	070	31.796.490	31.796.490
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	204.974.597	206.911.336
1. Retained earnings	073	204.974.597	206.911.336
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE PERIOD (076-077)	075	42.698.639	61.346.862
1. Profit for the period	076	42.698.639	61.346.862
2. Loss for the period	077		
VII. MAJORITY INTERESTS	078		
B) PROVISIONS (080 To 082)	079	800.366	891.108
1. Provisions for retirement, severance payment and similar	080	800.366	891.108
2. Tax provisions	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 to 092)	083	28.605.861	36.098.052
1. Liabilities to related parties	084		
2. Borrowings and deposits	085		
3. Liabilities to banks and other financial institutions	086	12.815.755	20.097.696
4. Liabilities for advances received	087		
5. Trade payables	088		
6. Liabilities for securities	089		
7. Liabilities to participating parties	090		
8. Other non-current liabilities	091		
9. Deferred tax liability	092	15.790.106	16.000.356
D) CURRENT LIABILITIES (094 to 105)	093	1.502.807.961	1.366.916.173
1. Liabilities to related parties	094	122.721.702	121.317.815
2. Borrowings and deposits	095		
3. Liabilities to banks and other financial institutions	096	333.785.448	281.723.365
4. Liabilities for advances received	097	420.814	1.431.050
5. Trade payables	098	1.026.425.417	939.641.174
6. Liabilities for securities	099		
7. Liabilities to participating parties	100		
8. Liabilities to employees	101	7.661.937	10.053.469
9. Liabilities for taxes and contributions	102	6.876.018	9.496.028
10. Dividend payables	103	1.034	1.034
11. Liabilities for non-current assets available for sale	104		
12. Other current liabilities	105	4.915.591	3.252.238
E) DEFERRED INCOME AND ACCRUED EXPENSES	106	1.950.925	2.185.839
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	1.955.388.192	1.888.661.113
G) OFF BALANCE SHEET ITEMS	108	185.013.175	161.014.153
SUPPLEMENT TO BALANCE SHEET (for consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Attributable to equity holders	109	421.223.079	482.569.941
2. Attributable to minority interest	110		

Note 1.: Supplement to balance sheet is filled for consolidated financial statements.

PROFIT AND LOSS
for period from 1.1.2014. to 31.12.2014.

Issuer: MEDIKA d.d

Description	AOP mark	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	2.302.299.740	561.812.724	2.307.879.632	601.235.479
1. Revenues from sale	112	2.272.333.622	547.064.245	2.272.856.101	578.593.254
2. Other operating revenues	113	29.966.118	14.748.479	35.023.531	22.642.225
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	2.239.902.001	548.694.759	2.238.983.821	566.246.966
1. Change in value of work in progress and finished goods	115				
2. Material expenses (117 to 119)	116	2.069.921.079	499.138.897	2.083.927.041	521.775.625
a) Raw materials	117	13.413.231	3.879.569	13.239.625	3.480.623
b) Cost of goods sold	118	2.019.263.880	485.434.377	2.035.339.291	508.348.782
c) Other expenses	119	37.243.968	9.824.951	35.348.125	9.946.220
3. Employee expenses (121 to 123)	120	93.913.322	23.731.436	96.944.535	24.187.954
a) Net salaries	121	54.929.861	14.032.208	56.073.888	14.151.225
b) Tax and contributions from salaries	122	26.640.432	6.574.205	27.067.131	6.510.218
c) Contributions on salaries	123	12.343.029	3.125.023	13.803.516	3.526.511
4. Depreciation and amortization	124	15.679.050	3.980.334	14.900.102	5.302.552
5. Other expenses	125	45.416.057	21.221.599	37.013.737	14.675.918
6. Impairment (127+128)	126	14.342.803	-7.197	5.728.823	-164.666
a) of non-current assets (financial assets excluded)	127	161.667	161.667	1.840.163	1.840.163
b) of current assets (financial assets excluded)	128	14.181.136	-168.864	3.888.660	-2.004.829
7. Provisions	129	629.690	629.690	469.583	469.583
8. Other operating expenses	130				
III. FINANCE INCOME (132 to 136)	131	5.558.220	614.754	12.003.305	4.077.980
1. Interests, foreign exchanges and dividend from related parties	132		-1.173.421		
2. Interests, foreign exchanges and dividend from non-related parties	133	4.624.770	854.725	10.936.756	3.752.230
3. Share of profit from associate	134	933.450	933.450	1.066.549	325.750
4. Unrealised gains	135				
5. Other financial income	136				
IV. FINANCE EXPENSES (138 to 141)	137	22.608.320	5.490.878	17.208.551	4.295.129
1. Interests, foreign exchanges and dividend from related parties	138	288.529	-59.675	307.910	74.112
2. Interests, foreign exchanges and dividend from non-related parties	139	22.319.791	5.550.553	16.900.641	4.221.017
3. Unrealised losses	140				
4. Other finance expenses	141				
V. SHARE OF PROFIT FROM ASSOCIATE	142				
VI. SHARE OF LOSS FROM ASSOCIATE	143				
VII. EXTRAORDINARY - OTHER INCOME	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL INCOME (111+131+142 + 144)	146	2.307.857.960	562.427.478	2.319.882.937	605.313.459
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.262.510.321	554.185.637	2.256.192.372	570.542.095
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	45.347.639	8.241.841	63.690.565	34.771.364
1. Profit before tax (146-147)	149	45.347.639	8.241.841	63.690.565	34.771.364
2. Loss before tax (147-146)	150	0	0	0	0
XII. INCOME TAX	151	2.649.000	-8.135.660	2.343.703	-4.951.013
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	42.698.639	16.377.501	61.346.862	39.722.377
1. Profit for the period (149-151)	153	42.698.639	16.377.501	61.346.862	39.722.377
2. Loss for the period (151-148)	154	0	0	0	0

SUPPLEMENT TO PROFIT AND LOSS (for consolidated financial statements)

XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to equity holders	155	42,698,639	16,377,501	61,346,862	39,722,377
2. Attributable to minority interest	156				

OTHER COMPREHENSIVE INCOME REPORT (for IFRS reporting)

I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	42,698,639	16,377,501	61,346,862	39,722,377
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 to 165)	158	0	0	0	0
1. Exchange differences on translation of foreign operations	159				
2. Changes in revaluation reserves for non-current tangible and intangible assets	160				
3. Profit or loss from revaluation of financial assets available for sale	161				
4. Gains or losses from efficient cash flow hedging	162				
5. Gains or losses from efficient hedge of net investment abroad	163				
6. Share in other comprehensive profit/loss of associates	164				
7. Actuarial gains/losses on defined benefit plans	165				
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (157+167)	168	42,698,639	16,377,501	61,346,862	39,722,377

APPENDIX to Other comprehensive income report (to be filled for consolidated financial statements)

VI. COMPREHENSIVE PROFIT OR LOSS					
1. Attributable to equity holders	169				
2. Attributable to minority interest	170				

STATEMENT OF CASH FLOW - Indirect method
for period from 1.1.2014. to 31.12.2014.

Issuer: MEDIKA d.d.			
Description	AOP mark	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	45.347.639	63.690.565
2. Depreciation and amortisation	002	15.679.050	14.900.102
3. Increase of current liabilities	003		
4. Decrease of current receivables	004	168.821.040	213.373.877
5. Decrease of inventories	005		
6. Other increase of cash flow	006	5.142.165	
I. Total increase of cash flow from operating activities (001 to 006)	007	234.989.894	291.964.544
1. Decrease of current liabilities	008	118.078.817	83.829.705
2. Increase of current receivables	009		
3. Increase of inventories	010	20.998.704	23.017.229
4. Other decrease of cash flow	011		87.526.976
II. Total decrease of cash flow from operating activities (008 to 011)	012	139.077.521	194.373.910
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	95.912.373	97.590.634
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of tangible and intangible assets	015	800.389	256.784
2. Proceeds from sale of equity and debt securities	016		
3. Interest received	017	1.678.783	7.751.869
4. Dividends received	018		
5. Other proceeds from investing activities	019		
III. Total proceeds from investing activities (015 to 019)	020	2.479.172	8.008.653
1. Purchase of tangible and intangible assets	021	11.902.683	44.687.579
2. Purchase of equity and debt securities	022		
3. Other purchases resulting from investing activities	023	41.433.000	
IV. Total purchases resulting from investing activities (021 to 023)	024	53.335.683	44.687.579
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	50.856.511	36.678.926
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of equity and debt securities	027		
2. Proceeds from borrowings	028	281.000.000	258.885.249
3. Other proceeds from financing activities	029		
V. Total proceeds from financing activities (027 to 029)	030	281.000.000	258.885.249
1. Repayments of borrowings	031	274.451.524	303.161.567
2. Dividends paid	032		
3. Repayments of finance lease	033	2.870.503	2.128.340
4. Purchase of treasury shares	034	1.680.971	
5. Other purchases resulting from financing activities	035		
VI. Ukupno novčani izdaci od financijskih aktivnosti (031 to 035)	036	279.002.998	305.289.907
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	1.997.002	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	46.404.658
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	47.052.864	14.507.050
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	0	0
Cash and cash equivalents at beginning of the period	041	19.541.163	66.594.027
Increase of cash and cash equivalents	042	47.052.864	14.507.050
Decrease of cash and cash equivalents	043		
Cash and cash equivalents at end of the period	044	66.594.027	81.101.077

STATEMENT OF CHANGES IN EQUITY
for period from **1.1.2014** to **31.12.2014.**

Description	AOP mark	Previous period	Current period
1	2	3	4
1. Share capital	001	94.205.280	134.967.180
2. Capital reserves	002	-9.243.180	-9.243.180
3. Reserves from retained earnings	003	88.587.743	88.587.743
4. Retained earnings or accumulated loss	004	204.974.597	206.911.336
5. Profit or loss for the period	005	42.698.639	61.346.862
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 to 009)	010	421.223.079	482.569.941
11. Foreign exchanges from the foreign investments	011		
12. Current and defferd tax (part)	012		
13. Cash flow hedge	013		
14. Cghanges of accounting policies	014		
15. Correction of material mistakes from previous period	015		
16. Other changes of equity	016		
17. Total increase or decrease of equity (AOP 011 to 016)	017	0	0
17 a. Attributable to equity holders	018		
17 b. Attributable to minority interest	019		

Balances that decrease equity are presented with the minus

Data in AOP 001 to 009 are presented as the balance as at balance sheet date

Zagreb, 09 February 2015

Pursuant to the articles 407. to 410. of the Capital market Law (Official Gazette 88/08 and 146/08) Director Jasminko Herceg provides

MANAGEMENT BOARD'S STATEMENT OF LIABILITY

Temporary unaudited consolidated and unconsolidated financial statements of Medika d.d. have been prepared pursuant to the International Financial Reporting Standards (IFRS) and Croatian Accounting Law.

Temporary unaudited consolidated and unconsolidated financial statements for the period period 01 January to 31 December 2014 present complete and fair view of assets and liabilities, profit and loss, financial position and operations of the Company and the Group.

The interim management report for the temporary unaudited financial statements for the period 01 January to 31 December 2014 presents true and fair presentation of development and results of the operations of the Company and the Group with description of significant risks and uncertainties for the Company and the Group.

Jasminko Herceg
Director


Medika d.d.
ZAGREB Čopraška 1